

**NATIONAL DAIRY MARKET AT A GLANCE**

**CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (12/23)**  
**BUTTER:** Grade AA closed at \$1.5350. The weekly average for Grade AA is \$1.5350 (-.0150).

**CHEESE:** Barrels closed at \$1.4200 and blocks at \$1.4850. The weekly average for barrels is \$1.4088 (+.0138) and blocks, \$1.4838 (+.0473).

**NONFAT DRY MILK:** Extra Grade closed at \$0.8600 and Grade A at \$0.8600. The weekly average for both Extra Grade and Grade A is \$0.8600 (N.C.).

**BUTTER:** The market tone remains weak. Cream offerings to the churn across the country are increasing as the year end holidays near. In many instances, butter producers are hesitant to take advantage of current offerings unless they are very competitively priced. Most butter producers feel that cream offerings will become better priced during the next week to 10 days. Butter stocks are limited. November cold storage holdings indicate that butter stocks of 59.4 million pounds are 44.6% lighter than last month and 51.6% less than November 2003. The nearly 48 million pound decline in butter holdings during November was the largest ever one month drawdown. November butter stocks have not been this light since 2001. Although butter imports have not been overly active in recent months, licensed imports for the first eleven months of 2004 total 14.2 million pounds, up 4.5% from the same period last year. Imports have reached more than 92% of the annual quota. High-tier imports (above quota with penalty) total 18.3 million pounds, sharply higher than the miniscule amount imported last year. Butter demand has slowed now that most of the year-end butter needs have been shipped. Some last minute/fill-in orders are trickling in, but for the most part, holiday butter orders are filled. Producers and handlers are quite pleased with butter orders this past fall, especially when firm butter prices prevailed for much of the time.

**CHEESE:** The cash cheese market remains unsettled with prices moving both higher and lower after 2 weeks of sharp declines. Packagers and processors are operating on reduced schedules this week and next during the holiday period, reducing bulk cheese needs. Natural interest, though uneven, remains much better than process. Many buyers are waiting for results of holiday cheese sales before reordering. The big issue for most cheese plant operators is red ink caused by the expected December Class III milk price compared to current returns on cheese sales. Cheese plant operators are trying to limit holiday milk purchases unless prices are sharply discounted.

**FLUID MILK:** Class I milk demand was generally strong early but declined around midweek as schools started to close for the yearend holidays and retail orders were filled. Manufacturing schedules have increased as Class I sales slowed during the holidays. Milk intakes are generally increasing seasonally in the Southeast, Central, the Pacific Northwest, as well as Arizona and parts of California. Receipts are about steady in other areas.

**DRY PRODUCTS:** The NDM market is steady to firm. Good export sales are limiting supplies. Some concern is noted that domestic cheese makers will reduce NDM use. Heavier drying schedules are expected into 2005. The WPC market is firm. Interest is noted from domestic and international buyers. Some

producers are sold out through the second quarter of 2005. The whey market is mostly steady. Increased cheese production over the holidays will generate additional whey. Buying interest is improved though directed toward 2005 needs. The buttermilk market is weak. Additional churning over the holidays is expected to generate additional buttermilk supplies for the slow demand.

**CCC:** During the period of December 20 - 22, there was no price support activity. CCC sold back 4,128,734 of older NDM at \$.8025-.8210 per pound under Invitation 14 to DSC1.

**FEDERAL MILK ORDER ADVANCE PRICES HIGHLIGHTS (DAIRY PROGRAMS):** Under the Federal milk order pricing system, the base price for Class I milk for January 2005 is \$16.65, up \$2.22 from December 2004. This price is derived from the advanced Class III skim milk pricing factor of \$9.70 and the advanced butterfat pricing factor of \$2.0818 per pound. Class I differentials specific to each county are added to the base price to determine the Class I price. The Class II skim milk price for January is \$7.20 and the Class II nonfat solids price is \$0.8000 per pound. The following are the two-week product price averages: butter \$1.8498, nonfat dry milk \$0.8698, cheese \$1.7648, and dry whey \$0.2436.

**NOVEMBER MILK PRODUCTION (NASS):** Milk production in the 20 major States during November totaled 11.8 billion pounds, up 1.2% from November 2003. October revised production, at 12.3 billion pounds, was up 1.4% from October 2003. The October revision represented an increase of 0.1% or 9 million pounds from last month's preliminary production estimate. Production per cow averaged 1,526 pounds for November, 9 pounds (0.6%) above November 2003. The number of cows on farms was 7.77 million head, 44,000 head more (0.6%) than November 2003, but unchanged from October 2004.

**COLD STORAGE (NASS):** The November U.S. cold storage holdings of butter totaled 59.4 million pounds, down 47.8 million pounds (-45%) from a month ago and 52% lower than last November. Natural American cheese holdings total 483.6 million pounds, 43.9 million pounds (-8%) less than a month ago, but 3% more than a year ago.

**NOVEMBER FEDERAL MILK ORDER PRICE AND POOL SUMMARY (DAIRY PROGRAMS):** During November, about 7.7 billion pounds of milk were received from producers. This volume of milk is 6.2% lower than the November 2003 volume on a comparable market basis. (Taking into account the volume of milk not pooled due to intra-order disadvantageous price relationships, the year-to-year change is unchanged.) About 3.9 billion pounds of producer milk were used in Class I products, 6.1% higher than the previous year on a comparable market basis. Calendar composition had a positive impact on milk used in Class I in 2004 as compared to 2003. The all-market average Class utilizations were; Class I = 50%, Class II = 15%, Class III = 26%, and Class IV = 9%. The weighted average statistical uniform price was \$15.75 per cwt., \$0.42 higher than last month, and \$1.38 higher than last year.

**\*\*\*\*SPECIAL THIS ISSUE\*\*\*\***

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**CHICAGO MERCANTILE EXCHANGE  
CASH TRADING**

PRODUCT	MONDAY DECEMBER 20	TUESDAY DECEMBER 21	WEDNESDAY DECEMBER 22	THURSDAY DECEMBER 23	FRIDAY DECEMBER 24	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE							
BARRELS	\$1.4000 (+.0225)	\$1.4100 (+.0100)	\$1.4050 (-.0050)	\$1.4200 (+.0150)	CME	(+.0425)	\$1.4088 (+.0138)
40# BLOCKS	\$1.4825 (+.0300)	\$1.4825 (N.C.)	\$1.4850 (+.0025)	\$1.4850 (N.C.)		(+.0325)	\$1.4838 (+.0473)
NONFAT DRY MILK							
EXTRA GRADE	\$.8600 (N.C.)	\$.8600 (N.C.)	\$.8600 (N.C.)	\$.8600 (N.C.)	CLOSED	(N.C.)	\$.8600 (N.C.)
GRADE A	\$.8600 (N.C.)	\$.8600 (N.C.)	\$.8600 (N.C.)	\$.8600 (N.C.)	NO	(N.C.)	\$.8600 (N.C.)
BUTTER							
GRADE AA	\$1.5350 (-.0150)	-----	\$1.5350 (N.C.)	-----	TRADING	(-.0150)	\$1.5350 (-.0150)

CHEESE: carload = 40,000-44,000 lbs., NONFAT DRY MILK: carlot = 42,000-45,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. \*Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM **NOTE: CME is closed 12/31**

## CHICAGO MERCANTILE EXCHANGE

MONDAY, DECEMBER 20, 2004

CHEESE — SALES: 2 CARS BARRELS: 1 @ \$1.3875, 1 @ \$1.4000; BIDS UNFILLED: 2 CARS BARRELS: 1 @ \$1.3950, 1 @ \$1.3925; 3 CARS 40# BLOCKS: 1 @ \$1.4825, 1 @ \$1.4600, 1 @ \$1.4525; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.4100  
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE  
 BUTTER — SALES: 5 CARS GRADE AA: 1 @ \$1.5200, 1 @ \$1.5100, 1 @ \$1.5000, 1 @ \$1.5100, 1 @ \$1.5325; BIDS UNFILLED: 1 CAR GRADE AA @ \$1.5350; OFFERS UNCOVERED: NONE

TUESDAY, DECEMBER 21, 2004

CHEESE — SALES: NONE; BIDS UNFILLED: 1 CAR BARRELS @ \$1.4100; OFFERS UNCOVERED: NONE  
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

WEDNESDAY, DECEMBER 22, 2004

CHEESE — SALES: 5 CARS BARRELS: 1 @ \$1.4200, 1 @ \$1.4075, 3 @ \$1.4050; 6 CARS 40# BLOCKS: 4 @ \$1.4750, 1 @ \$1.4825, 1 @ \$1.4850; BIDS UNFILLED: 1 CAR 40# BLOCKS @ \$1.4775; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.4050  
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE  
 BUTTER — SALES: NONE; BIDS UNFILLED: 1 CAR GRADE AA @ \$1.5350; OFFERS UNCOVERED: NONE

THURSDAY, DECEMBER 23, 2004

CHEESE — SALES: NONE; BIDS UNFILLED: 1 CAR BARRELS @ \$1.4200; OFFERS UNCOVERED: 1 CAR 40# BLOCKS @ \$1.5000  
 NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

FRIDAY, DECEMBER 24, 2004 -- CME CLOSED, NO TRADING

## BUTTER MARKETS

## NOVEMBER COLD STORAGE

According to NASS, November month-ending cold storage figures for butter total 59.4 million pounds, 51.6% less than last November and 44.6% less than October 2004.

## NORTHEAST

The market tone is weak. The cash butter price at the CME lost 1.5 cents during the Monday's (12/20) trading session. Some contacts feel that the price will hold at or near current levels into January, but others feel that additional price declines are warranted. Churning activity is increasing now that cream prices have moved to "more acceptable" levels for many butter makers. Because of the expected glut of cream over the holiday, butter makers are offering multiples in or below the "one teens," delivered. Demand for packaged butter is slowing from the retail channels, steady in the food service channels, but fair to improved for bulk as users and speculators try to replenish inventories. Sales of bulk butter f.o.b. East, are reported in a range of flat market to 5.5 cents over the CME price/average.

## CENTRAL

The butter market tone is steady to weak. Butter producers indicate that cream offerings are increasing. In many instances, butter producers are not actively taking advantage of the offerings at this time unless they are very competitively priced. Most butter producers feel that cream offerings will be heavy during the upcoming holiday period and will be more favorably priced. Early in the week, cream pricing multiples of 115 delivered were already being reported. Stocks of butter are getting quite low, although most holiday orders have been placed and shipped. Current orders are for short term/fill-in needs. Many butter producers are hopeful that the upcoming holiday period will be a time when they can start

to rebuild some working inventory for the start of 2005. Butter producers and handlers are quite pleased with butter orders this past fall, especially when firm butter prices prevailed for much of the time. Current orders have slowed and are anticipated to remain so until the new year. Some scattered feature activity has appeared in retail ads for the upcoming holidays, but is substantially less than in years past. Restaurant and food service orders have been good and remain so as the holiday season continues. Bulk butter for spot sale is being reported in the 2 - 4 cents per pound range over various pricing basis.

## WEST

Cash butter prices weakened at the CME on December 20. Prices had held steady for a few trading sessions. Stocks of butter remain tight and some restocking is taking place. Offerings of cream to churns in the region are increasing. Now that basing average prices have declined and multiples are also lower, selling cream has become somewhat easier. Churning activity is expected to be heavy through the end of the year. Preliminary indications are that holiday sales should move very good volumes of butter through retail channels. Licensed butter imports for the first eleven months of the year total 14.2 million pounds, up 4.5% from the same period last year. Imports have reached more than 92% of the annual quota. Higher tier imports (above quota with penalty) total 18.3 million pounds, sharply higher than the miniscule amount imported last year. Prices are such this year that imports would probably be higher if more butter was available in international trade channels. CME weekly butter inventories declined last week by 1.3 million pounds to stand at 8.7 million pounds. This is the lowest inventory reported since December 1998. This week last year, stocks were more than 55 million pounds. Bulk butter prices range from flat to 4 cents under based on the CME with various time frames and averages.

## NASS DAIRY PRODUCT PRICES

## U.S. AVERAGES AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	BARRELS 38% MOISTURE			
DECEMBER 18	1.7779	1.6743	0.8734	1.7110	0.2430
	8,248,052	9,210,954	16,673,226	2,496,745	9,833,231

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

## CHEESE MARKETS

## NORTHEAST

Prices are sharply lower and the market tone is mixed. Seasonal needs are, for the most part, delivered to retailers. However, distributors are busy getting last minute orders out to restaurants and "mom and pop" stores. Cheese production is light in the Northeast as December's Class III milk price is expected to be too high to make much "\$1.40 cheese." Producers expect to have more milk offered to them during the coming two weeks and do not seem too eager to take much extra milk unless discounted significantly. Demand for cheese has been good leading up to this holiday, but declining now that deliveries have been made. Retail movement is fair to good, but in-store prices continue to be a factor in consumption. Food service orders are good as restaurants prepare for the expected good business during the next two weeks.

WHOLESALE SELLING PRICES: DELIVERED,  
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.5025-2.0175
Cheddar Single Daisies	:	1.4600-1.9350
Cheddar 40# Block	:	1.5775-1.8350
Process 5# Loaf	:	1.6050-1.8125
Process 5# Sliced	:	1.6250-1.8775
Muenster	:	1.6750-1.8775
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

## MIDWEST

The cheese market is unsettled. Some buyers have been delaying orders, waiting for the weekly price average to catch up after 2 weeks of sharp declines. Processors and packagers are operating on reduced schedules this week and next around the holidays, reducing bulk cheese needs. Holiday orders are filled as some operations prepare for Super Bowl needs though others are waiting for holiday sales results. Most traders feel that recent recovery in barrel prices is more to reduce the spread toward traditional levels rather than a real need for barrels. Cheese plant operators are trying to minimize red ink for December with Class III milk prices sharply higher than returns from current cheese prices would dictate by minimizing cheese production. Process demand is mostly slower, just fair at best. Natural interest is uneven, mostly moderate, though current offerings remain limited. Lead times on natural orders are nearing normal lengths. Handlers trying to clear milk into cheese plants during the holiday period are likely to receive large discounts from the Class III price.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,  
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.5750-2.2000
Brick And/Or Muenster 5#	:	2.0900-2.1800
Cheddar 40# Block	:	1.7900-2.2650
Monterey Jack 10#	:	2.0300-2.2650
Blue 5#	:	2.2850-2.9000
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.7350-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.2500-2.9500

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS  
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

## BUTTER : CHEESE

12/20/04	9,336	:	120,158
12/01/04	12,616	:	125,402
CHANGE	-3,280	:	-5,244
% CHANGE	-26	:	-4

## WEST

Contacts are a bit surprised at some of the strength noted in cash CME markets over the past few trading sessions. Some are now believing that at least a temporary bottom has been established and buyers are happy to be doing some restocking at much lower prices than have recently traded. Cheese production may actually be lower than expected for the last few days of the year because of the price relationship between milk and cheese that will yield negative returns for most manufacturers. Discounts are noted on offering prices for milk to stimulate some buying interest. Heavier volumes of milk than anticipated are likely to be pushed into butter/powder production. End user stocks of cheese appear to be on the light side. Cheese imports subject to licensing for the first eleven months of the year total 247.95 million pounds, up 5.0% from the same period in 2003. The imports stand at 83% of the quota total. High-tier imports (above quota levels with penalties) total 44.0 million pounds, up 1.8% from the same period in 2003.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND  
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.5475-1.8075
Cheddar 40# Block	:	1.5575-1.9100
Cheddar 10# Cuts	:	1.7375-1.9575
Monterey Jack 10#	:	1.7475-1.9075
Grade A Swiss Cuts 6 - 9#	:	2.2500-2.7000

## FOREIGN

Prices are sharply lower on domestic styles, unchanged on imported. The market tone is seasonal. Demand is good for traditional table cheeses, but the high retail prices continue to have an impact on consumption. Distributors are busy making last minute deliveries. Importers are making arrangements for purchases on 2005 licenses, but the weak dollar is having a big impact on purchase decisions. Recent reports indicate that cheese imports, subject to licensing, during the first eleven months of 2004 totaled 112.50 Kg, 5.0% more than the same period last year. Imports of high tier cheese totaled 19.98 million Kg., 1.8% more than the January - November period in 2003.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK  
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
Roquefort	TFEWR	-0-
Blue	2.6400-4.2900	1.8175-3.3175*
Gorgonzola	3.6900-5.9400	2.3275-2.4900*
Parmesan (Italy)	TFEWR	3.2225-3.3375*
Romano (Italy)	2.1000-3.1500	-0-
Provolone (Italy)	3.4400-5.8900	1.8300-2.0525*
Romano (Cows Milk)	-0-	3.0125-5.1875*
Sardo Romano (Argentina)	2.8500-3.2900	-0-
Reggianito (Argentina)	2.6900-3.2900	-0-
Jarlsberg-(Brand)	2.9500-4.0900	-0-
Swiss Cuts Switzerland	-0-	2.4500-2.6500
Swiss Cuts Finnish	2.5900-2.8500	-0-
Swiss Cuts Austrian	TFEWR	-0-
Edam	:	:
2 Pound	TFEWR	-0-
4 Pound	2.1900-3.4500	-0-
Gouda, Large	TFEWR	-0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	27.8000-31.7000	-0-

\* = Price change.



## FLUID MILK AND CREAM

## E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	40	110	32	0	32	0
SOUTHEAST STATES	0	0	0	0	0	0

November milk production in the 20 major states totaled 11.85 billion pounds, up 1.2% from November 2003. The following are the November-to-November changes for selected states: Florida +3.6%, Texas +2.2%, Virginia +1.5%, Pennsylvania +0.5%, Vermont -1.4%, New York -2.1%, and Kentucky -2.6%. Extremely cold weather covered the East early this week. Frosts were recorded as far south as Central Florida and temperatures well below zero were recorded in the northern most areas. Milk production was little affected by the weather. Milk output is increasing in the Southeast and mostly steady in the Northeast. Fluid milk supplies are more than ample to meet current needs. Bottlers were very busy early this week trying to build a little inventory ahead of Christmas weekend needs. However, many bottlers ordered heavy volumes of milk to meet these early-week needs, but once they have enough inventory, they are now canceling loads which is pushing milk back in to manufacturing channels. This is evidenced by the weekly shipments into and out of Florida. Weekend Class I plant orders caused milk to be imported, but mid-week cancellations led to heavy exports. Most manufacturing plants are operating and most have more milk than they had anticipated. Some capacity is available, but the extra "down day" in bottlers' (Sunday is usually the only down day on the weekend) schedules is adding to milk handling problems. Conversely, the holidays falling on Saturday is reported as a good thing for manufacturing plants. Condensed skim supplies are long and demand is slow, which is forcing more skim through dryers. Reports indicate that some ice cream plants will be open next week which is helping ease the pressure on dryers and will be an outlet for several loads of cream. Typically, they are closed through the entire holiday period. The fluid cream market is weak. Spot interest is limited and most ice cream plants are down this week, but as mentioned above, some will operate next week to take advantage of the ample cream supply and relatively low prices. Spot prices are sharply lower, following the CME average butter price. There is still some production of bottled cream, but that may also be due to the relatively inexpensive cream being offered. Cream handlers report that more loads are clearing to butter makers. The prices/multiples being offered by most butter makers range from 90-115 times the CME butter price, date of ship. Some suppliers are offering Class II users attractive discounts to entice additional usage.

## FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	1.8910-2.2010
DELIVERED EQUIVALENT ATLANTA	-	1.9220-2.2010 M 1.9530-2.0460
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	1.7825-2.1390

PRICES OF CONDENSED SKIM, \$ PER LB SOLIDS

F.O.B. PRODUCING PLANTS:	
NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES	- .9600- .9800
NORTHEAST- CLASS III - SPOT PRICES	- 1.1000-1.2300

## M I D W E S T

Class I interest is uneven this week. Demand from bottlers had been strong early while schools were open but dropped off around midweek to slow holiday levels. Fill in orders of some holiday products such as dips and creams were also good early. Some bottlers expect to have a good couple days early next week and be slow again by midweek. Handlers were anticipating the yearend holiday calendar was more in their favor with many schools only closed for around 10 days rather than the usual 2 weeks. The search to find available manufacturing space over the yearend holidays is well underway. Recent sharp declines in cash cheese prices at the Chicago Mercantile Exchange compared to an expected increase in Class III milk prices has cheese milk buyers demanding a discount to at least break even or make money on some milk used in cheese production in December. Manufacturing milk prices and booking prices for the upcoming holiday weekend are sharply lower with reports ranging from \$10.00 to flat class/components delivered for a short haul. Other plant operators are skimming excess cream from milk to sell rather than

to add powder or condensed to cheese vats. Milk intakes are continuing to increase seasonally. Many ice cream operations are closed for a week or two of vacation so most cream is directed to churns. Fat and protein levels (components) remain very high seasonally. Initial November estimated milk production in selected Midwestern states compared with November 2003 is: Wisconsin, 1.750 billion pounds, down 11 million pounds (-0.6%); Minnesota, 639 million pounds, off 7 million pounds (-1.1%); Michigan, 505 million pounds, up 2 million pounds (0.4%); Iowa, 289 million pounds, down 9 million pounds (-3.0%); and Indiana, 240 million pounds, off 5 million pounds (-2.0%).

## WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	DEC 16 - 21	PREVIOUS YEAR
SLAUGHTER COWS	\$ 46.00- 52.00	\$ 49.00- 56.50
REPLACEMENT HEIFER CALVES	\$290.00-460.00	\$300.00-430.00

## SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	DEC 16 - 21	PREVIOUS YEAR
SLAUGHTER COWS	\$ 45.00- 54.50	\$ 50.00- 57.25

## W E S T

20 Selected States' milk production reported for November totals 11.8 billion pounds, up 1.2% from a year earlier. Production per cow was up 9 pounds or 0.6%. Cow numbers stand at 7.77 million head, no change from the previous month. October cow numbers were revised downward by 4,000 head. November output in selected Western states compared to last year is as follows: Arizona +7.6%, California +4.9%, Idaho +4.6%, New Mexico -2.6%, and Washington -3.2%. Cow numbers in these five states are up 79,000 head from last year with California leading the way with an increase of 47,000 head. Production per cow was mixed, ranging from +2.1% in California to -3.9% in New Mexico. With the amount of growth noted and the building of new and expanded dairies taking place in California, contacts are speculating about who is going to build the next new plant and what the product mix will be. CALIFORNIA milk production is mostly flat with some areas slightly higher. The end of year holidays are creating some limited problems with handling milk but the situations are not severe to the point thought just six weeks ago. Balancing plants are expected to run full and on extended schedules for the next two weeks. Some milk and components are leaving the state to find processing homes. School fluid milk interest has stopped for the week and not expected to be refilled until the end of next week. Retail fluid orders are moderate along expected patterns. ARIZONA milk output is steady to slightly higher. Components are at seasonally high levels and holding due to the cool weather patterns. Processing plants are running more milk and expect to be busy over the holidays. Milk production is level with recent weeks in NEW MEXICO. Winter weather conditions are prevalent at midweek in the eastern areas of the state. The effects on cows and transportation were minor according to early reports. Milk is available in the state with surplus milk coming back from bottled milk handlers. The hope is that supplies can be balanced between local and nearby plants. CREAM markets are weaker across the region. Multiples and basing point prices are declining. Supplies are heavy and cream is being discounted to move. Seasonal cream accounts have slowed and more cream is moving to churns. The CME butter price was \$1.5350 on December 22, a decline of 1.5 cents from last week. Cream multiples range from 105 to 120, FOB and vary depending on class usage and basing point. Supplies of milk for manufacturing are up this week in the PACIFIC NORTHWEST. This is due to a combination of production increasing slowly along seasonal patterns and the holidays causing more milk to become surplus. No problems are expected with plant capacity, but not all operations are willing to take milk or cream unless they are able to buy it cheap enough to assure a profit on the finished product. Conditions are drying out somewhat in the yards and producers are happy about that. Output is being called about generally steady in UTAH and IDAHO. Conditions are improving and the mud is less of a problem currently. Tests on the milk receipts are normal for this season. Plants are stating that there is quite a bit of milk around this week, even more than most had anticipated. Plants are being selective on looking at loads of milk based on quality and price. They can be very picky at this point in time and still probably end up with the milk. The generally moderate winter is not adding to the feed cost and consumption side of the equation. Some feeder hay is reportedly leaving Utah for California. It is somewhat unusual for hay of this quality to move that far.

**NDM, BUTTERMILK & WHOLE MILK**

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

**NONFAT DRY MILK - CENTRAL AND EAST**

**CENTRAL:** Prices are unchanged on a steady market. Heavier production is anticipated over the holiday weekend. Most plants expect to adequately handle additional milk supplies. Brokers and distributors anticipating increased production at NDM plants and seasonally operated dryers are requesting to buy NDM loads before they are produced. Some plants are readily forward contracting loads whereas others are opting to wait and see whether their contract orders are satisfied before selling on a spot basis. Some sales of Western NDM into the Central region are being displaced by trades from seasonal dryers in the Central region. High heat trade is light and mostly contractual.

**EAST:** The market tone remains relatively firm and prices are steady. Production levels are light. However, surplus milk volumes jumped significantly at mid-week, when bottlers started canceling milk orders. Also, sales of condensed skim are slowing and most Eastern dryers are gearing up for sustained, heavy drying through late next week. Plant stocks are light to adequate and demand is reported as good. A contract to sell NDM to Cuba has reportedly been signed, and some of the volume will be made by Eastern producers. USDA, FSA (CCC) sold back nearly two million pounds of nearly three-year-old NDM at prices ranging \$.7950-.7975 per pound. CCC has announced that they are accepting bids on another four million pounds. Traders comment that both current production and powder from government programs are becoming tighter. Contacts report a continued good stream of inquiries.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A  
 LOW/MEDIUMHEAT: .8500 - .9200 MOSTLY: .8700 - .8800  
 HIGHHEAT: .9100 - .9700

**NONFAT DRY MILK - WEST**

Western low/medium heat nonfat dry milk prices are steady on the top ends to higher on the bottom ends of both the range and mostly price series. The market tone is firm. Supplies on the market remain tight due to good export movement and the fair to good domestic sales. There are concerns about cheese makers using less NDM following recent declines in the cheese price. Drying schedules are heavy and expected to remain that way to balance holiday milk surpluses. The KCCO announced on December 16 the sale back to the trade of 2,087,917 pounds of 30 to 36 month old NDM for unrestricted usage from CCC stocks. Prices ranged from \$0.7950 to \$0.7975 per pound. Another announcement was issued seeking bids for up to 4.1 million pounds of 30 to 36 month old NDM for unrestricted use. High heat prices are lower in light trading. Market interest continues to be lighter than anticipated and has not seen any boost in sales at the end of the year. There are stocks available from most producers and extra is being dried on a limited basis.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A  
 LOW/MEDIUMHEAT: .8500 - .9300 MOSTLY: .8600 - .9000  
 HIGHHEAT: .8700 - .9000

**CALIFORNIA MANUFACTURING PLANTS - NDM**

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
December 17	\$.8689	10,185,799	218,255
December 10	\$.8657	13,027,633	238,093

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

**DRY BUTTERMILK - CENTRAL**

Prices are unchanged to lower on a weak market. Unconfirmed trades of aged supplies of buttermilk are reported underneath the range. Production of dry buttermilk is steady to higher with increased supplies expected over the holidays. Dryer activity has been less than anticipated at this time of year due to increased buyer interest in condensed buttermilk compared to dry buttermilk. Despite firmer NDM markets and the possible substitutability between NDM and buttermilk, NDM prices are reportedly no longer an indicator of buttermilk market trends. Therefore, firmer NDM prices may not equate to higher buttermilk prices.

F.O.B. CENTRAL: .8750 - .9550

**DRY BUTTERMILK - NORTHEAST AND SOUTHEAST**

Prices are mostly lower the market tone is weaker. The Northeast price range remains nominal. Eastern production is currently steady, but increased churning during the upcoming holiday periods will push more fluid buttermilk onto the market. Most dryers will be operating around the clock on skim, so little time will be available for drying buttermilk. Plant stocks are moderate as the relatively high prices hamper sales.

F.O.B. NORTHEAST: .9200 - .9400  
 DELVDSOUTHEAST: .9500 - .9800

**DRY BUTTERMILK - WEST**

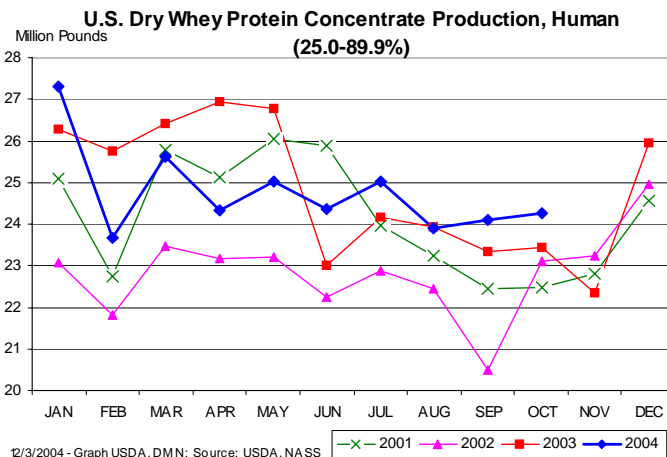
Dry buttermilk prices continue to trend lower in light spot trading activity. The timing of the yearend holidays are also coming into play and buyers do not have incentives to put product away. Drying is heavy as churning is active in the region to process cream. Drying times are still open for buttermilk but could narrow as holiday surplus milk arrives. Stock levels are moderate and available from several sources.

F.O.B. WEST: .8950 - .9500 MOSTLY: .9000 - .9200

**DRY WHOLE MILK - NATIONAL**

Prices are steady to sharply lower and remain nominal. The recent declines in the cash butter price at the CME have prompted the Western producers to lower prices of dry whole milk. Production levels are lighter as most dryers are busy processing skim during the holiday period. Demand is steady at best. Plant stocks are light, but adequate for current sales.

F.O.B. PRODUCING PLANT: 1.3050 - 1.3500



**WHEY, CASEIN & EVAPORATED MILK**

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

**DRY WHEY - CENTRAL**

Prices are generally unchanged on a steady market. Most trade is occurring domestically on contracts. Export movement is dissipating yet expected to improve if price differentials between the Central and West increase to account for shipment to the coast. Offers of additional loads of Central region whey are noted into Canada. Brokers report that supplies are readily available at standard list prices. Contracts for 2005 are nearly settled with contractual agreements trending nearly unchanged compared to 2004. While spot supply availability during 2005 is uncertain, buyers are generally not attempting to garner additional supplies in the event of tighter supplies.

F.O.B. CENTRAL: .2400 - .2500 MOSTLY: .2400 - .2450

**DRY WHEY - NORTHEAST AND SOUTHEAST**

Prices and the market tone are unchanged. However, contacts at all levels of the market report increased interest for dry whey. Many see lighter cheese output until milk prices come down or cheese prices increase, which is slowing dry whey output. Eastern producers have little to offer on the spot market and most have committed nearly all their projected 2005 production. Traders comment that inquiries for next year's contracts are finding that producers in all areas of the country expect less dry whey to be available. This may also be impacted by the very good demand for WPC. Not only is domestic demand for dry whey fairly brisk, but export interest remains good. Tight world supplies and the weak U.S. dollar make U.S.-made whey an attractive choice to some buyers.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .2475 - .2650  
DELVD SOUTHEAST: .2700 - .2825

**DRY WHEY - WEST**

Western whey range prices are fractionally higher while the mostly held fully steady. Domestic sales activity is reported as good this week, but it is anticipated that action may slow before the end of the year. Exports continue to move out at a steady pace. Some are surprised that year-end issues have not been more of a factor yet. Contacts do indicate that some buyers are beginning to complain more loudly about the higher prices. They are threatening to switch to other dairy products since there doesn't seem to be any competitive whey in the world. Domestic whey production is about steady, but some slowness may develop as plants try to make less cheese at the end of the year because of disadvantageous pricing relationships.

NONHYGROSCOPIC: .2350 - .2800 MOSTLY: .2500 - .2600

**ANIMAL FEED WHEY - CENTRAL**

Prices are unchanged and nominal on a steady market. Supplies are light with reduced trade activity compared to the week prior as buyers await the new year before making additional purchases. Veal prices are generally steady while early weaned pig prices are higher.

F.O.B. CENTRAL:  
MILK REPLACER: .2000 - .2200

**WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST**

Prices are higher on a firm market. Anxiety in satisfying orders for 2005 is noted by both buyers and sellers of WPC. Some producers are offering WPC 80% as a substitute to WPC 34% in response to expected and current supply shortages. On a per unit of protein basis, WPC 80% is generally being offered on the high side of the range. Producers are reportedly receiving requests for WPC from both domestic and international buyers. Some producers are sold out through the second quarter of 2005. Feed buyers are searching for alternative supplies of milk proteins such as delactose. If supplies of WPC are not available in 2005, some buyers may be forced to purchase alternative grain proteins. Off grade supplies are limited for the good feed interest.

F.O.B. EXTRA GRADE 34% PROTEIN: .6200 - .7400 MOSTLY: .6425 - .6625

**LACTOSE - CENTRAL AND WEST**

Prices remain unchanged on a mixed market. Market trend reports vary. Some producers state that they are asking higher prices in the first quarter with some trades finalized at higher levels for this period. For these operations, good trade into Southeast Asia reportedly reduced excess supplies, resulting in a sold out position. Increased sales in response to tighter whey and dry permeate supplies was also a reported factor. Other producers state that the market is weak with trades trending below the average and offers reported at a discount into export markets. Yet still, another group of producers and traders relay information that contracts are steady and the market is expected stable in the first quarter. Contracts for the fourth quarter in 2004 are trending within the mostly price range. Some 2005 annual contracts, prepared in mid to late October, are reported at a discount to the market into confectionary markets on lower meshed product. Higher mesh supplies are generally tight and trading at the average to higher. Feed grade product is available and trading at prices within the range. Lactose production is steady to higher in light of increased production of various protein concentrates.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.

F.O.B. EDIBLE: .1450 - .2300 MOSTLY: .1700 - .2000

**CASEIN - NATIONAL**

Casein markets and prices remain firm. Domestic buyers are fully aware that their prices for the new quarter are probably going to be higher and in some instances much higher than current quarter prices. Although prices will be firmer, stocks are not going to become any more available. Suppliers indicate that they continue to fulfill commitments, but in instance they are finding this task to be quite difficult. In most all instances, suppliers do not have any extra casein available for additional or spot buyer interest. Some unconfirmed reports indicate that casein prices of \$3.50 and higher for second quarter are already being reported. LTL lots or a few pallets are being quoted at \$3.90 per pound. Under invitation #036, CCC sold 1,996,927 pounds of government owned nonfat dry milk for the production of casein/caseinate for \$0.4600 per pound.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 2.8500 - 3.1500  
ACID: 2.9000 - 3.1500

**EVAPORATED MILK - NATIONAL**

Prices are unchanged and the market tone is steady. Production patterns remain light, but late this week, more surplus milk is being offered to some producers. Prices for this surplus milk are often being discounted to attract interest. If discounts are large enough, evaporated milk makers are showing some interest in replenishing depleted inventories. Fluid milk contacts are commenting the surplus milk volumes are heavier than anticipated after mid-week. Shipments from producing plants have slowed.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$22.00 - 30.00

Excluding promotional and other sales allowances. Included new price announcements.

## CHICAGO MERCANTILE EXCHANGE FUTURES

Selected settling prices, (open interest), and volume 1/

Month	12/08	12/09	12/10	12/13	12/14	12/15	12/16	12/17	12/20	12/21
<b>CME - (CLASS III) MILK FUTURES -- Dollars per cwt</b>										
DEC 04	16.55 (4685) 31	16.50 (4686) 202	16.55 (4738) 142	16.40 (4747) 114	16.40 (4733) 117	16.53 (4734) 57	16.52 (4745) 19	16.49 (4755) 144	16.45 (4832) 562	16.50 (4810) 37
JAN 05	13.95 (3261) 352	13.58 (3301) 294	13.58 (3255) 635	13.15 (3317) 295	13.37 (3324) 259	13.67 (3238) 382	13.50 (3226) 248	13.43 (3270) 231	13.84 (3225) 180	13.85 (3182) 177
FEB 05	13.08 (2548) 145	12.86 (2547) 35	12.95 (2676) 373	12.69 (2675) 162	13.10 (2727) 144	13.17 (2740) 156	13.08 (2786) 181	13.10 (2800) 79	13.60 (2812) 92	13.72 (2832) 138
MAR 05	12.72 (2642) 29	12.66 (2640) 15	12.68 (2622) 120	12.61 (2635) 29	12.70 (2666) 115	12.71 (2672) 16	12.71 (2671) 27	12.71 (2703) 52	12.98 (2731) 65	13.25 (2759) 190
APR 05	12.78 (1594) 12	12.78 (1600) 7	12.77 (1577) 118	12.77 (1586) 35	12.77 (1592) 20	12.80 (1600) 23	12.80 (1623) 64	12.79 (1644) 53	13.10 (1685) 75	13.45 (1714) 153
MAY 05	12.70 (1489) 17	12.70 (1494) 7	12.68 (1505) 38	12.70 (1507) 22	12.68 (1515) 20	12.75 (1523) 17	12.80 (1549) 62	12.80 (1566) 50	13.19 (1589) 46	13.45 (1611) 122
JUN 05	13.00 (1230) 14	12.93 (1235) 10	12.92 (1246) 44	12.92 (1247) 10	12.92 (1249) 14	12.92 (1252) 10	12.92 (1279) 64	12.92 (1323) 89	13.30 (1339) 103	13.50 (1353) 95
JUL 05	12.93 (1015) 16	12.93 (1015) 16	12.93 (1022) 17	12.90 (1024) 15	12.92 (1029) 7	12.93 (1032) 6	12.93 (1032) 21	12.94 (1054) 70	13.25 (1066) 46	13.55 (1081) 62
AUG 05	13.35 (1044) 18	13.36 (1045) 10	13.36 (1056) 16	13.36 (1078) 30	13.38 (1080) 4	13.38 (1083) 5	13.40 (1085) 23	13.45 (1098) 48	13.65 (1100) 20	13.74 (1117) 54
SEP 05	13.68 (981) 13	13.68 (990) 11	13.65 (1001) 22	13.65 (1001) 12	13.65 (1012) 13	13.65 (1015) 6	13.68 (1036) 60	13.68 (1063) 37	13.90 (1070) 19	13.98 (1086) 57
OCT 05	12.89 (731) 17	12.89 (739) 15	12.92 (745) 15	12.90 (750) 13	12.93 (752) 9	12.93 (755) 4	12.93 (765) 31	12.95 (774) 30	13.09 (778) 16	13.10 (789) 55
NOV 05	12.29 (497) 8	12.30 (498) 1	12.30 (503) 11	12.30 (513) 17	12.39 (513) 13	12.39 (513) 8	12.39 (537) 24	12.50 (550) 18	12.60 (550) 31	12.65 (555) 44
DEC 05	12.22 (534) 8	12.22 (534) 1	12.22 (540) 9	12.22 (542) 5	12.22 (548) 14	12.22 (550) 4	12.22 (550) 21	12.25 (550) 10	12.35 (558) 21	12.40 (570) 38
JAN 06	12.09 (27) 2	12.09 (27) 0	12.09 (27) 0	12.09 (27) 0	12.09 (27) 0	12.09 (27) 0	12.09 (27) 0	12.09 (28) 1	12.09 (28) 0	12.09 (28) 0
FEB 06	12.05 (14) 1	12.07 (14) 0	12.07 (14) 0	12.07 (14) 0	12.07 (16) 2	12.07 (16) 0	12.07 (16) 0	12.07 (16) 0	12.07 (16) 0	12.07 (16) 0
MAR 06	12.08 (10) 0	12.08 (10) 0	12.08 (10) 0	12.08 (10) 0	12.08 (12) 2	12.08 (12) 0	12.08 (12) 0	12.08 (12) 0	12.08 (12) 0	12.08 (12) 0
APR 06	12.05 (10) 0	12.05 (10) 0	12.05 (10) 0	12.05 (10) 0	12.05 (12) 2	12.05 (12) 0	12.05 (12) 0	12.05 (12) 1	12.05 (12) 0	12.05 (12) 0
MAY 06	12.00 (2) 0	12.00 (2) 0	12.00 (2) 0	12.00 (2) 0	12.00 (4) 2	12.00 (4) 0	12.00 (4) 0	12.00 (4) 0	12.00 (4) 0	12.00 (4) 0
JUN 06	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0	12.03 (2) 0
JUL 06	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0	12.50 (2) 0
<b>CME - (CLASS IV) MILK FUTURES - Dollars per cwt.</b>										
JAN 05	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0
FEB 05	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0	12.35 (9) 0
MAR 05	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0	12.30 (7) 0
APR 05	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0	11.75 (7) 0
MAY 05	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0
JUN 05	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0
SEP 05	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0	11.75 (1) 0
OCT 05	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0	11.75 (5) 0
NOV 05	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0	11.75 (6) 0
<b>CME - BUTTER FUTURES -- Cents per pound</b>										
DEC 04	190.00 (49) 13	175.00 (35) 21	160.02 (24) 7	157.00 (23) 1	157.00 (21) 9	158.00 (15) 12	157.00 (15) 7	157.00 (12) 1	159.00 (12) 0	
MAR 05	162.00 (85) 7	157.00 (85) 0	156.00 (85) 2	154.00 (85) 0	154.00 (85) 0	155.25 (99) 20	158.50 (112) 19	159.50 (132) 23	160.50 (133) 1	160.00 (148) 16
MAY 05	165.00 (87) 1	160.00 (88) 1	155.00 (91) 5	154.00 (91) 2	156.00 (90) 0	156.00 (90) 0	157.00 (94) 9	160.00 (100) 6	162.00 (101) 1	161.75 (103) 2
JUL 05	163.00 (44) 0	160.00 (45) 1	156.00 (45) 3	155.00 (45) 1	156.00 (45) 0	156.00 (45) 0	157.00 (51) 9	160.00 (55) 4	162.00 (55) 0	162.00 (56) 1
SEP 05	165.00 (22) 1	160.00 (23) 1	156.00 (25) 3	154.00 (25) 0	154.00 (25) 2	155.00 (25) 0	155.00 (25) 0	158.00 (29) 6	163.00 (29) 0	163.00 (29) 0
OCT 05	165.00 (10) 0	160.00 (10) 0	155.00 (12) 2	154.00 (12) 0	154.00 (13) 2	155.00 (13) 0	155.00 (13) 0	158.00 (14) 1	163.00 (14) 0	163.00 (14) 0

1/ At the CME open interest for milk -- 200,000 pounds per contract. For more detailed information, you may call our automated voice system at 608-224-5088.



## INTERNATIONAL DAIRY MARKET NEWS

Information gathered December 13 - 24, 2004

Prices are U.S. \$/MT, F.O.B. port. Information gathered for this report is from trades, offers to sell, and secondary data. This bi-weekly report may not always contain the same products and/or regions. Future reports may be included or withdrawn depending on availability of information. MT = metric ton = 2,204.6 pounds.

## WESTERN AND EASTERN EUROPE

**WESTERN EUROPEAN OVERVIEW:** The European milk production season is basically at the low point of the year, although most producers and handlers are looking forward to the upcoming production season with optimism. At this point, most reports indicate that overall output is trailing last year at this time, but some producers will have to closely monitor their volumes as the milk quota yearend nears. Weather conditions in Europe have been quite favorable for much of the fall. In recent weeks though, winter temperatures are being reported in more regions which will slow production development as the new season nears. Traders and handlers indicate that international sales activity is quiet. The yearend holidays are a part of this, but higher than desired prices for potential buyers are also limiting sales development. European suppliers and traders are now reporting lower offering prices in hopes of encouraging buyer interest. Due to a weakening trend in Europe, buyers are hesitant to commit at this time and are holding off placing orders for possible further price adjustments. Stocks of manufactured dairy products are available for both domestic and international buyer interest. At this point, most sales activity is centered around internal or domestic needs. The Dairy Management Committee has not acted upon any major dairy related issues at their most recent meeting. Intervention stocks continue to be sold back to the trade. As of December 9, skim milk powder intervention volumes were nearly 77,000 MT with about 40,000 MT of this available for potential sale. Butter intervention volumes are heavier with nearly 173,000 MT being held with 136,000 MT available for potential sale.

**BUTTER/BUTTEROIL:** European butter markets are unsettled with prices unchanged to lower. A recent trend of lower prices is being reported for most manufactured dairy products throughout Europe. Traders and handlers are hopeful that this trend will stimulate buyer interest. At this point, the yearend holidays and hopes of further price weakness by potential buyers are limiting buyer interest. Russia is looking and securing butterfat for winter needs, although this sales activity is lighter than past years.

82% BUTTERFAT: 1,900 - 2,150  
99% BUTTERFAT: 2,100 - 2,600

**SKIM MILK POWDER (SMP):** Skim milk powder markets are unsettled and generally weak. Prices are unchanged to lower. Traders and handlers are hopeful that lower prices will encourage buyer interest. Although prices are lower than in recent weeks, buyers remain hesitant and are often waiting for possible further weakness. Traders and handlers feel that the international market must be in need of powder since most buyers have been absent from the market for quite some time. Most feel that potential buyers must be hand to mouth at this point and should be in the market early in the new year.

1.25% BUTTERFAT: 2,150 - 2,420

**WHOLE MILK POWDER (WMP):** European whole milk powder markets are weak and prices are unchanged to lower. Traders and handlers are hopeful that the weaker price trend will encourage potential buyers to return to the market. At this point, international buyer interest remains quiet. Traders feel that the holidays, along with possible further price declines, are limiting sales activity. Production of whole milk powder is lighter as milk volumes are at seasonal low levels, although stocks are available for both domestic and international buyer interest.

26% BUTTERFAT: 2,250 - 2,400

**SWEET WHEY POWDER:** Whey powder markets and prices are generally steady although the market undertone is weak. Stocks of whey are available for both domestic and international buyer interest although cheese production is seasonally light. Sales activity is centered around internal or domestic needs with international sales slow. Slow international sales are being attributed to higher than desired asking prices.

NONHYGROSCOPIC: 600 - 800

**EASTERN EUROPEAN OVERVIEW:** In Eastern Europe, winter weather conditions and temperatures are being reported which will slow overall milk production trends. At this point, production is hovering around seasonal low levels in most countries. Stocks of manufactured dairy products are reported to be available. Slow international buyer interest is also being reported out of this region basically attributed to firmer than desired prices especially from EU-25 countries in the region. Traders and handlers are hopeful that sales will develop early in the new year as prices adjust.

## OCEANIA

**OCEANIA OVERVIEW:** Oceania milk production is edging lower, although the decline is not significant at this time. Milk producers and handlers in both Australia and New Zealand are hopeful that the second half of the production season will be more positive than the first half. Production reports continue to indicate that milk output in New Zealand during the first half of the year trailed last season with output in Australia also slightly lower. Stocks of manufactured dairy products are in very close balance with demand. In most instances, suppliers indicate that they do not have any product available for additional or spot buyer interest. International buyers continue to look to Oceania for needs, but are finding that if they are not a regular or ongoing customer, their inquiries are going unfilled. Shipments will continue to regular customers during the upcoming year end holiday period, but the holidays will slow overall trading and sales activity. Traders and handlers are not looking for any significant market activity for the next two to three weeks. At this point, prices remain firm and supplies are tight.

**BUTTER:** Oceania butter markets are steady and prices are generally unchanged. Stocks of butter are in close balance with needs. Traders and handlers indicate that most contracted and regular customer needs are being met, although they have no additional volumes available for spot buyer interest. Traders do state that international buyers are looking to Oceania for butter needs, but finding that if they are not a regular or ongoing customer, their inquiries are going unfilled.

82% BUTTERFAT: 1,850 - 2,350

**CHEDDAR CHEESE:** Oceania cheese markets are steady at unchanged prices. Cheese production is seasonally active, although milk volumes are declining. The first half of the season did not generate as much milk as many cheese manufacturers had anticipated, thus overall stocks are lighter. Cheese producers and handlers are hopeful that the second half of the season will more positive and they will be able to make up some of what was not generated during the first half. At this point, cheese stocks are in close balance with needs. Most regular and ongoing customers are getting their contracted volumes.

39% MAXIMUM MOISTURE: 2,650 - 2,900

**SKIM MILK POWDER (SMP):** The skim milk powder prices are unchanged and the market tone remains firm. Although the market is firm, traders and handlers do not foresee much strength to current prices. The strength to the market is the lack of supply. Stocks of powder are in very close balance and often producers and handlers indicate that stocks are tight. Milk production is on the down side of the season and traders and handlers are hopeful that the second half of the milk production season will be more positive than the first half.

1.25% BUTTERFAT: 2,100 - 2,300

**WHOLE MILK POWDER (WMP):** Whole milk powder markets are steady at unchanged prices. Traders and handlers indicate that shipments will continue to clear New Zealand and Australia during the upcoming holiday period, although sales activity will be slow. Traders and handlers state that international buyer interest is occurring, but lack of supply is limiting sales negotiations.

26% BUTTERFAT: 2,150 - 2,300

Exchange rates for selected foreign currencies: December 20, 2004

.8134 Canadian Dollar	.0228 Indian Rupee
.3374 Argentina Peso	.7166 New Zealand Dollar
.0896 Mexican Peso	.7639 Australian Dollar
.3255 Polish Zloty	.0096 Japanese Yen
	1.3389 Euro

To compare the value of 1 US Dollar to Mexican Pesos:  $(1/.0896) = 11.1607$ . That is 1 US Dollar equals 11.1607 Mexican Pesos.

Source: "Wall Street Journal"



## MONTHLY COLD STORAGE REPORT – TOTAL U.S. STOCKS

NOTE: Data for this report is collected from public, private and semiprivate warehouses, apple houses, and meat packing plants where food products are generally stored for 30 days or more. Commodities in space owned or leased and operated by the armed services are not reported. Food stocks held under bond are included in the storage data.

All stocks in thousand pounds except where otherwise indicated

## U.S. HOLDINGS OF DAIRY PRODUCTS

COMMODITY	OCT 31, 2002	OCT 31, 2003	REVISED OCT 31, 2004	NOV 30, 2002	NOV 30, 2003	NOV 30, 2004
Butter	164,640	170,154	107,152	135,632	122,544	59,363
Cheese, Natural American	501,401	491,098	527,486	474,055	467,226	483,553
Cheese, Swiss	18,927	22,044	26,082	22,251	24,083	27,326
Cheese, Other Natural	200,064	209,264	202,603	200,757	204,232	196,098

## U.S. GOVERNMENT OWNED COLD STORAGE HOLDINGS

Butter	1,844	11,084	91	1,021	8,701	143
Natural American Cheese	927	9,473	6,868	463	6,918	4,947

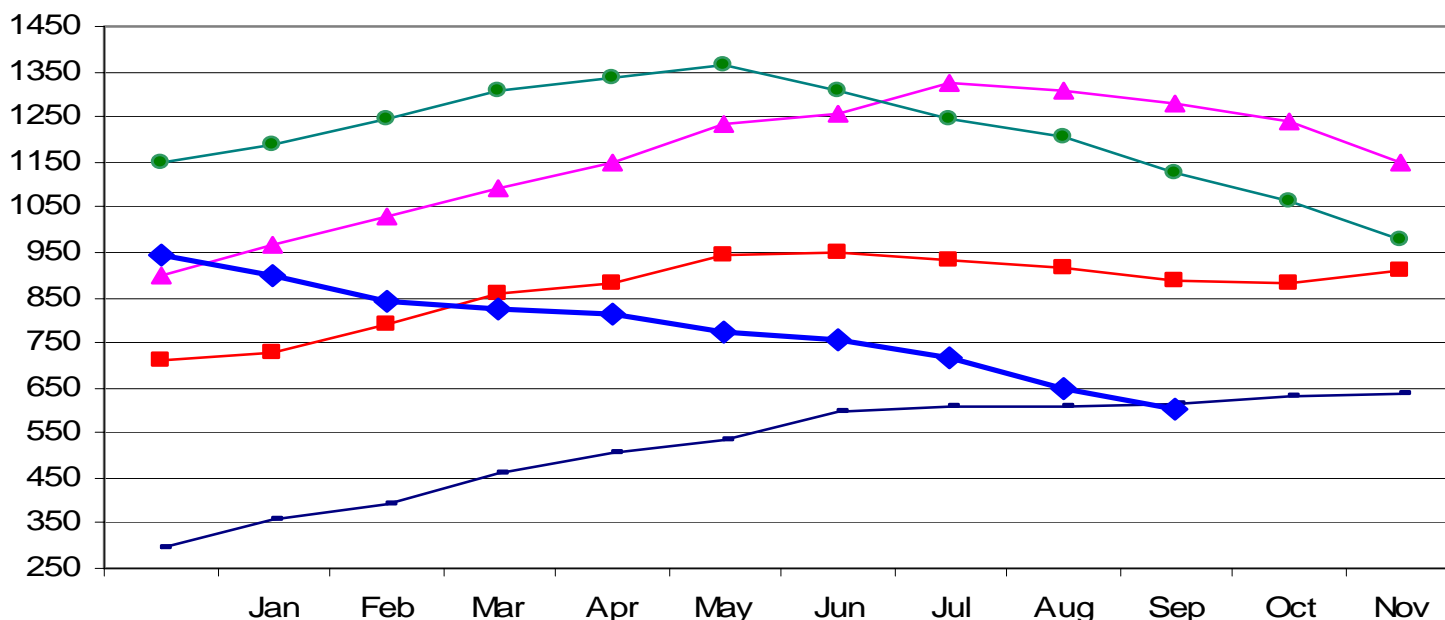
## NOVEMBER STORAGE HOLDINGS BY REGION

REGION	Natural American Cheese			Butter *			Other Natural Cheese		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
New England	17,941	20,496	22,401	---	---	---	371	383	288
Middle Atlantic	59,428	45,229	54,791	---	---	---	28,256	14,631	10,250
East North Central	189,187	180,073	187,236	---	---	---	104,712	116,886	113,955
West North Central	108,491	109,439	108,284	---	---	---	55,076	53,353	55,003
South Atlantic	475	100	3,596	---	---	---	899	1,827	115
East South Central	276	181	297	---	---	---	250	2,139	2,143
West South Central	1,657	1,979	1,791	---	---	---	346	97	90
Mountain	6,929	17,429	26,063	---	---	---	683	3,576	4,867
Pacific	89,671	92,300	79,094	---	---	---	10,164	11,340	9,387
TOTAL	474,055	467,226	483,553	135,632	122,544	59,363	200,757	204,232	196,098

\*Regional breakdowns are not reported to avoid possible disclosure of individual operations.

MILLION POUNDS

## NDM STORAGE HOLDINGS



NASS DATA, GRAPH BY DMN

— 2000 — 2001 — 2002 — 2003 — 2004

## COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 2003 TO DATE

Month	Butter						Natural American Cheese						Nonfat Dry Milk					
	Total <u>1/</u>		Commercial		Government		Total <u>1/</u>		Commercial		Government		Total <u>1/ 2/</u>		Commercial		Government <u>2/</u>	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	Million Pounds						Million Pounds						Million Pounds					
January	152	205	151	204	1	<u>3/</u>	518	515	508	515	10	<u>3/</u>	945	1,147	109	112	836	1,036
February	158	240	157	238	1	1	533	539	524	538	10	<u>3/</u>	896	1,187	95	116	800	1,071
March	158	245	158	242	1	3	521	531	511	529	10	2	841	1,247	80	137	761	1,111
April	156	264	155	259	<u>3/</u>	5	529	535	519	532	10	3	826	1,308	104	154	723	1,154
May	179	298	178	289	<u>3/</u>	9	561	539	551	536	10	3	814	1,336	123	159	691	1,177
June	187	301	187	291	<u>3/</u>	11	590	550	582	546	9	4	774	1,365	146	152	628	1,212
July	194	284	193	273	<u>3/</u>	11	616	552	609	546	7	6	755	1,308	161	90	594	1,219
August	161	254	161	244	<u>3/</u>	10	569	547	562	538	7	9	716	1,245	149	75	567	1,170
September	133	207	133	197	<u>3/</u>	10	554	517	547	508	6	9	650	1,207	127	69	523	1,138
October	107	170	107	159	<u>3/</u>	11	527	491	521	482	7	9	602	1,128	115	69	486	1,059
November	59	123	59	114	<u>3/</u>	9	484	467	479	460	5	7		1,062		87		975
December		100		93		6		491		482		10		978		108		870

NA = Not available.

1/ Total may not add due to rounding. 2/ Includes instant nonfat dry milk. 3/ Less than 500,000 lbs.COMMERCIALLY OWNED COLD STORAGE HOLDINGS FOR THE UNITED STATES 1/

Commodity	Oct 31, 2002	Oct 31, 2003	Oct 31, 2004	Nov 30, 2002	Nov 30, 2003	Nov 30, 2004
	Thousand Pounds					
Butter	162,796	159,070	107,061	134,611	113,843	59,220
Natural American Cheese	500,474	481,625	520,618	473,592	460,308	478,606

1/ Total holdings minus Government owned holdings. For more information, see page 9 of this report.

**SOURCE:** "Cold Storage," Co St 1 (12-04) and "Dairy Products," Da 2-6 (12-04), Agricultural Statistics Board, National Agricultural Statistics Service; and "Summary of Processed Commodities in Store," Farm Service Agency.

## FEDERAL MILK ORDER PRICE AND POOL SUMMARY, NOVEMBER

**HIGHLIGHTS** - Handler reports of receipts and utilization under the Federal milk order system for November have been filed and tabulated. Combined totals for the 10 orders are being released. During November, about 7.7 billion pounds of milk were received from producers. This volume of milk is 6.2 percent lower than the November 2003 volume on a comparable market basis. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is unchanged.) About 3.9 billion pounds of producer milk were used in Class I products, 6.1 percent higher than the previous year on a comparable market basis. Calendar composition had a positive impact on milk used in Class I in 2004 as compared to 2003. The all-market average Class utilization percentages were; Class I = 50%, Class II = 15%, Class III = 26%, and Class IV = 9%. The weighted average statistical uniform price was \$15.75 per cwt., \$0.42 higher than last month, and \$1.38 higher than last year.

PRICE AND POOL STATISTICS FOR FEDERAL MILK ORDER MARKETING AREAS FOR THE MONTH OF NOVEMBER 2004										
FEDERAL MILK ORDER MARKETING AREA <sup>1/</sup>	ORDER NUMBER	RECEIPTS OF PRODUCER MILK		UTILIZATION OF PRODUCER MILK IN CLASS I			UTILIZATION OF PRODUCER MILK IN OTHER CLASSES			UNIFORM PRICE <sup>2/</sup>
		TOTAL	CHANGE FROM PREV. YEAR <sup>3/</sup>	TOTAL	CHANGE FROM PREV. YEAR <sup>3/</sup>	PERCENT	CLASS II	CLASS III	CLASS IV	
		MIL. LBS.	PERCENT	MIL. LBS.	PERCENT		PERCENT			\$ PER CWT.
Northeast (Boston)	001	1,770.8	-4.8	920.2	4.7	52	20	23	5	16.20
Appalachian (Charlotte)	005	508.4	0.2	368.7	5.5	73	15	5	7	16.78
Southeast (Atlanta)	007	566.7	-4.6	405.7	7.5	72	10	12	6	16.83
Florida (Tampa)	006	230.2	4.8	205.0	7.7	89	9	<sup>4/</sup>	2	17.99
Midwest (Cleveland)	033 <sup>5/</sup>	1,476.7	2.7	562.3	4.3	38	15	43	4	15.21
Upper Midwest (Chicago)	030 <sup>5/</sup>	950.8	-8.5	385.8	4.3	40	12	36	12	15.02
Central (Kansas City)	032 <sup>5/</sup>	760.6	-34.4	383.3	6.7	50	16	24	10	15.10
Southwest (Dallas)	126 <sup>5/</sup>	760.0	3.2	360.2	9.8	47	12	28	13	15.88
Arizona-Las Vegas (Phoenix)	131	228.1	-6.3	84.3	7.2	37	8	32	23	15.20
Pacific Northwest (Seattle)	124 <sup>5/</sup>	465.7	8.6	194.1	9.9	42	8	17	33	14.75
<b>ALL MARKET AVERAGE OR TOTAL</b>	<b><sup>3/</sup> <sup>5/</sup></b>	<b>7,718.0</b>	<b>-6.2</b>	<b>3,869.6</b>	<b>6.1</b>	<b>50</b>	<b>15</b>	<b>26</b>	<b>9</b>	<b>15.75</b>

<sup>1/</sup> Names in parentheses are the major city in the principal pricing point of the market.

<sup>2/</sup> Statistical uniform price for component pricing orders (Class III price plus producer price differential). For other orders, uniform skim milk price times 0.965 plus uniform butterfat price times 3.5.

<sup>3/</sup> Percent changes from the previous year are based on the same group of comparable markets—markets where the orders were in effect for both years. Excludes the Western Federal milk order which was terminated effective April 1, 2004.

<sup>4/</sup> Less than 0.5 percent.

<sup>5/</sup> Due to a disadvantageous relationship between intraorder class prices and the location adjusted statistical uniform (blend) price in these markets, handlers elected not to pool an estimated 1.7 billion pounds of milk that normally would have been associated with these markets. In November 2003, the estimated not-pooled volume of milk was 1.4 billion pounds, occurring in Order Nos. 030, 032, 124, and 135. After adjusting for these not-pooled volumes, the year-to-year percent change is unchanged.

## NOVEMBER MILK PRODUCTION

Milk production in the 20 major States during November totaled 11.8 billion pounds, up 1.2 percent from November 2003. October revised production, at 12.3 billion pounds, was up 1.4 percent from October 2003. The October revision represented an increase of 0.1 percent or 9 million pounds from last month's preliminary production estimate.

Production per cow in the 20 major States averaged 1,526 pounds for November, 9 pounds above November 2003.

The number of cows on farms in the 20 major States was 7.77 million head, 44,000 head more than November 2003, but unchanged from October 2004.

## NOVEMBER 2004 MILK COWS AND MILK PRODUCTION, BY STATES

STATE	MILK COWS 1/		MILK PER COW 2/		MILK PRODUCTION 2/		
	2003	2004	2003	2004	2003	2004	% CHANGE FROM 2003
	THOUSANDS		POUNDS		MILLION POUNDS		PERCENT
AZ	155	168	1,775	1,760	275	296	7.6
CA	1,694	1,741	1,665	1,700	2,821	2,960	4.9
FL	140	137	1,180	1,250	165	171	3.6
ID	412	436	1,740	1,720	717	750	4.6
IL	109	106	1,485	1,450	162	154	-4.9
IN	151	154	1,620	1,560	245	240	-2.0
IA	197	190	1,515	1,520	298	289	-3.0
KY	112	109	1,025	1,030	115	112	-2.6
MI	300	306	1,675	1,650	503	505	0.4
MN	465	460	1,390	1,390	646	639	-1.1
MO	125	120	1,190	1,215	149	146	-2.0
NM	320	324	1,670	1,605	534	520	-2.6
NY	660	646	1,410	1,410	931	911	-2.1
OH	258	266	1,370	1,390	353	370	4.8
PA	560	563	1,420	1,420	795	799	0.5
TX	317	320	1,440	1,455	456	466	2.2
VT	146	145	1,415	1,410	207	204	-1.4
VA	108	103	1,260	1,340	136	138	1.5
WA	243	234	1,810	1,820	440	426	-3.2
WI	1,249	1,237	1,410	1,415	1,761	1,750	-0.6
20 STATE TOTAL	7,721	7,765	1,517	1,526	11,709	11,846	1.2

1/ Includes dry cows. Excludes heifers not yet fresh.

2/ Excludes milk sucked by calves.

**SOURCE:** "Milk Production," Da 1-1 (12-04), Agricultural Statistics Board, National Agricultural Statistics Service, U.S. Department of Agriculture.



## THE DAIRY OUTLOOK

**2004 Dairy Records All Around** - The year of 2004 has been incredible for the U.S. dairy industry. Milk production is a record or near-record, commercial use has hit new highs, and prices have been extremely volatile throughout the year. Farm milk prices have jumped more than a fourth from 2003's average to a record \$16 per cwt. Expanded milk production in 2005 is projected to lend more stability to the industry and to lower prices. However, growth in milk production is not expected to be rapid, dairy product demand is expected to be pretty good, and commercial exports are projected to continue to absorb most of the domestic surplus of skim solids. Milk prices are projected to lose only about half of their 2004 increase.

**Slow Milk Production Growth To Continue** - Milk production continues its cautious expansion, running about 1 percent above a year earlier since it moved positive in early summer. Strength in milk prices has proven more persistent than earlier thought, probably bringing milk cow numbers near a year earlier for the first time since early 2003. However, growth in milk per cow remains rather anemic, as forage problems continue, improved price ratios between milk and concentrate feeds have yet to make a splash, and bovine somatotropin (BST) remains limited. Record farm milk prices in 2004 have bolstered milk cow numbers. Although concentrate feed prices were high for part of the year, returns over concentrate costs have averaged about the highest ever. These returns apparently slowed the exit of farms from dairying, having improved the ability of even the weaker operations to hold on. Some effects may last into 2005 as these farms probably have used some of this year's windfall to get ahead on critical expenses. The strong returns probably did not have as much impact on expansion by robust farms. Considerable incentive existed to keep facilities as full as possible, but many of the key factors in this year's prices likely were perceived to be too temporary to alter long-term growth plans. Even so, the infusion of cash probably will allow farms to expand somewhat sooner than otherwise. Replacement heifer prices eased a little this autumn, but supplies probably have stayed tight. In 2004, replacement prices are expected to average over \$1,600 per head, exceeding even the record of 2002. The United States remains closed to imports of breeding stock from Canada. The January inventory report might show a few more homegrown replacement heifers than at the start of 2004. However, any increase is likely to be modest because the greatest economic influence on this inventory would have been the relatively low replacement prices of 2003. The upward drift in milk cow numbers that began early last winter appears to have peaked in early autumn. Cow numbers are projected to slowly decline in coming months as farm exits gradually resume, expansions stay moderate, and heifer supplies remain tight. Decreases may accelerate as 2005 progresses, but returns are expected to remain favorable enough to limit declines in cows. Cow numbers are expected to decline less than 1 percent in 2005, very similar to this year's slippage. Milk per cow in 2005 is expected to rise almost 3 percent, a seemingly impressive rise. However, this increase would represent a rather modest recovery towards the long-run trend. Milk production is projected to end 2004 stronger than earlier in the year. Even so, the annual total is expected to be almost unchanged from a year earlier. Output in 2005 is projected to expand about 2 percent, the first sizable rise since 2002.

**Commercial Stocks Cut** - Butter and cheese stocks continued to be trimmed at a brisk seasonal pace in October. November 1 butter holdings were down sharply from the two preceding years, and weekly indicators showed further strong decreases during November. Commercial cheese stocks remained slightly larger than 1 or 2 years earlier. Summertime backups into warehouse stocks had largely dissipated by the start of November. The key factor in recent stock trimming probably was strong product movement for the autumn holidays. Sales reportedly were fairly good in late October and remained strong through Thanksgiving. Manufacturers' nonfat dry milk stocks were significantly above a year earlier on November 1. However, the modest size of price support purchases during October and November indicated that traders were not uncomfortable with these holdings. Strong powder sales generally and the prominence of the export market probably have boosted the need for stocks this year. The combination of a considerably smaller surplus and aggressive donation use for drought relief and food aid pulled government stocks of nonfat dry milk on November 1 below 500 million pounds, the smallest since late 2000 and half the level of a year earlier. Most of the remaining powder is expected to be used in coming months, although new purchases are projected to replenish stocks somewhat. Net removals of nonfat dry milk have been fairly moderate in recent months. There have been no Dairy Export Incentive Program (DEIP) shipments, and the continued exchange of nonfat dry milk for pudding apparently has displaced relatively little domestic use. The key to this rather abrupt change in the surplus of skim solids has been the competitiveness of U.S. skim solids in the international market. However, recovery in domestic ingredient use may also have made a significant contribution. During the marketing year ended September 30, 2004, net removals of nonfat dry milk were only 167 million pounds, less than one-fourth those of either of the two preceding years. Even though substantial quantities were sold for unrestricted use (including that swapped for pudding or processed cheese), purchases stayed rather moderate. Net removals of butter were slightly negative because of small amounts sold back to the industry, while small DEIP exports of

cheese were made. Removals are expected to stay moderate during the current marketing year, even if they pick up from the rather minimal start. International markets are expected to absorb most of the domestic surplus of skim solids, and milkfat markets are projected to remain tight. The strength of export demand is critical, but removals are not expected to return to the levels of a few years ago even if commercial exports falter. Although allocations for the current July-June commitment year were announced, no invitations for bids, necessary to implement DEIP, were issued. Domestic butter and cheese markets have stayed tight, and U.S. skim milk powder is fully competitive internationally without subsidies. Invitations may be issued after the start of the year if market conditions change enough.

**Commercial Use Mixed** - Movement of many dairy products has remained erratic, confounding easy interpretation of current dairy demand. Sales of butter and cheese were somewhat lackluster in September-October, following strong oscillations during spring and most of summer. Some of the sluggishness during September-October may still have been carryover from the spring price peaks and subsequent adjustments. However, delayed holiday buying probably was a larger factor. Prices generally weakened during September and much of October. Buyers likely minimized purchases for the autumn holidays in hopes of further price decreases, setting the stage for the reported November scramble for supplies. Commercial disappearance of nonfat dry milk continues to increase, up modestly in October after an astounding summer quarter. Through October, movement was 45 percent above a year earlier—seemingly sure to break the 1965 record this year. It is unclear where this powder went. Commercial exports undoubtedly have been large this year, but the reported exports minus DEIP and food aid exports only explain a relatively modest share of the increase in disappearance. Although domestic powder use may well have grown, and user inventories might have swollen, it seems likely that commercial exports have been larger than what has been reported thus far. Sales of other products have been mixed but generally weak. Declines in beverage milk sales persist, down about 1.5 percent for the first 9 months of 2004. Likewise, sales of cottage cheese and frozen products (other than lowfat ice cream) decreased significantly in recent months. Sour cream and yogurt use did manage to be exceptions to the general pattern. The economy and personal incomes continue to grow. However, economic performance has been uneven, with some sectors lagging considerably. In addition, higher food and energy prices have absorbed a significant share of the income growth. But, the consumption expenditures seem to imply an underlying shift to housing and housing-related expenditures and away from the “treats” for immediate consumption that had been so favored before mid-2001. These trends imply that demand for dairy products will be good—but not exceptional—in 2005.

**Tight International Markets and a Weak Dollar Equal High Prices** - International dairy markets remain tight, and the weak U.S. dollar is translating this tightness into relatively high prices. Prices of nonfat dry milk ran about \$2,400 per metric ton in late November, up about \$600 from a year earlier and \$200 since late summer. Meanwhile, butter was selling for about \$2,100 per ton, up about \$500 from a year earlier and slightly from summer levels. Prices for cheese and dry whole milk reportedly have been even stronger than for butter and nonfat dry milk. Demand has been generally strong. Milk powder demand from eastern Asia has been brisk, reflecting the region’s generally good economic performance. Latin American imports have stayed fairly large in spite of the high prices. Higher oil prices have boosted demand in the Middle East, North Africa, and other oil producers, as has rebuilding efforts in Iraq and Afghanistan. Higher oil prices have also had an important impact on butter demand in the Middle East. Russian butter demand reportedly has been fairly robust but not extraordinary. Export supplies have been limited. European Union (EU) milk production has been down slightly, and domestic use has been strong. Intervention stocks are quite moderate. As a result, the EU has been relatively slow to compensate for the strength of the euro by

raising export restitutions. Australia’s recovery in milk production has been modest thus far in their season. Meanwhile, cool, wet conditions foiled pre-season predictions of another sizable increase in New Zealand output. Season totals continued to lag year-earlier levels through the seasonal peak. An annual increase is certainly still possible since recent weather has been excellent. However, considerable doubt remains, particularly since last season had a fairly strong close. The United States still has considerable quantities of skim solids that could be exported at current prices, but the U.S. domestic market has tightened greatly. The increase in nonfat dry milk prices since the middle of 2003 differs in several important ways from earlier surges in international prices. First, the very high dollar prices resulted from a combination of a tight market balance and a weak dollar. Some importers are being affected by the high prices much less than others, and most exporters are being hurt by their currencies’ strength. Oil producers, normally affected substantially by weakness in the dollar, have not been because of higher oil prices. Market dynamics also have been considerably different during this price rise. Typically, major price increases have set off a round of panic buying by importers that pushes prices to an extreme peak. Prices soon collapse once the panic starts to subside. In the recent case, buyers knew there was no reason for concern. The continuing surplus and heavy stocks in the United

States meant that ample amounts would be available near recent prices. International prices for nonfat dry milk are expected to remain high through at least most of 2005 as the dollar is expected to stay weak. Export supplies are unlikely to expand substantially until at least the second half. Some seasonal price weakening may occur during the Northern Hemisphere winter, but demand is projected to stay firm. The same general picture is projected for butter prices, but butter prices may not be quite as strong because of less certain demand strength.

**Price Volatility Remains** - The 2004 price roller coaster had one last up to it. Butter and cheese prices rose during much of November as brisk holiday movement overwhelmed the modest expansion in milk production. The effects may have been compounded by late summer-early autumn price softness that encouraged buyers to delay holiday purchasing. However, market tightness was reportedly not uniform, with butter and some cheese varieties and ages tight but other cheese types more ample. Substantial declines in wholesale butter and cheese prices have begun as year end holiday needs apparently have been met. Further declines may occur if pipeline holdings become swollen or if late season sales falter. Year end pipeline holdings probably will be key to early 2005 prices. Butter pipelines give signs of going out of the year tight, possibly quite tight. However, holdings of at least some cheese types might be ample. Seasonal declines in cheese prices are expected to have been large by early 2005. Falls in butter prices may also be large, but the declines probably will be slowed somewhat by low stocks. Even so, wholesale butter and cheese prices are projected to remain relatively strong through at least the first half of the year. Growth in milk production is not likely to be sudden, and demand should be able to absorb most of it. Nonfat dry milk prices are in a somewhat different position. Second-half increases were modest and driven mostly by adjustment to international prices. International prices will remain the dominant factor in domestic powder prices. Some slight seasonal weakening is possible (particularly if the dollar recovers a bit) but prices may average above the support purchase price for most of the first half of 2005.

**Fall From 2004 Record Milk Price Seen as Limited** - Late 2004 recovery will leave average farm milk prices near \$16 per cwt, up about \$3.50 from 2003 and easily a record. Milk prices have averaged above a year earlier since the summer of 2003. The year-to-year rise in farm prices was the largest proportional rise since World War I. In 2004, the value of milk for cheese exceeded the value of milk for butter-nonfat dry milk by a wide margin. This stood in sharp contrast to most of the 2000-02 period when butter-powder values were dominant. The advantage to cheese is expected to narrow in 2005 as extra milk is expected to lower butter and cheese prices but have little impact on powder prices. Milk prices are projected to fall to \$13.85-\$14.65 in 2005, still considerably above those of 2002 and 2003. Much will hang on the size and steadiness of the expansion in

milk production, where uncertainty is boosted by the BST situation as well as other milk-per-cow factors. Demand growth is expected to be only modestly favorable but could pick up if the economy finds steadier footing. Lastly, behavior by buyers, stung by this year's price volatility, may be somewhat erratic. Retail dairy prices in 2004 are projected to average about 8 percent above a year earlier, following almost no change in 2003. Although the farm-to-retail price spread posted increases during the second half, the average spread decreased slightly for the second year in a row. Despite the relatively large increase this year, retail dairy prices in the last 5 years have risen less than 3 percent annually, similar to prices of all food and a little less than prices of all items. Retail prices of manufactured dairy products reacted rather typically to wholesale price swings, lagging changes in both directions, but fluid milk price changes were highly unusual. Late 2003 farm price increases and the early portion of the 2004 rise were almost not seen in retail prices of fluid milk. Retail milk prices then made an unprecedented jump in May. When farm milk prices dropped, retail prices fell relatively quite quickly in August and September. Several factors may have contributed to this unusual pattern. Fluid milk sales have generally been rather weak, leaving retailers concerned that price increases might sap sales even more. Fluid milk sales make the greatest contribution to net margins for the dairy case, even though gross margins are relatively modest. In addition, supermarkets are being seriously challenged by the mixed-merchandise discount chains. Supermarket milk sales had been affected less than most sales because shopping frequency at the discounters was low. As the frequency has increased, supermarkets have seen a larger share of milk sales being challenged. Retail dairy prices are expected to increase less than 2 percent in 2005. Increases in the spread are projected to just outweigh the decreases in farm milk prices. However, retail pricing of fluid milk might stay somewhat atypical and unpredictable.

**SOURCE:** "Livestock, Dairy, and Poultry Outlook", LDP-M-126, December 16, 2004, Economic Research Service, USDA. For more information, contact James J. Miller, (202) 694-5184. This summary has been condensed from the original.

**CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)**

	FOR THE PERIOD OF DECEMBER 20 - 22, 2004			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/04	SAME PERIOD LAST YEAR	WEEK ENDING 12/17/04	SAME PERIOD LAST YEAR
<b>BUTTER</b>							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>TOTAL</b>	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>CHEESE</b>							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>TOTAL</b>	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>NONFAT DRY MILK</b>							
Nonfortified	-0-	-0-	-0-	31,817,269	97,800,374	-0-	799,351,000
Fortified	-0-	-0-	-0-	-0-	-119,048	-0-	46,391,000
<b>TOTAL</b>	-0-	-0-	-0-	31,817,269	97,681,326	-0-	845,742,000

**MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)**

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
PERIOD OF DECEMBER 20 - 22, 2004 =	0.0	0.0	COMPARABLE PERIOD IN 2003 =	1.8	93.7
CUMULATIVE SINCE OCTOBER 1, 2004 =	7.0	370.4	CUMULATIVE SAME PERIOD LAST YEAR =	21.5	1,137.0
CUMULATIVE JAN. 1 - DEC. 22, 2004 =	60.2	3,233.1	COMPARABLE CALENDAR YEAR 2003 =	714.7	7,613.4

\* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

\*\*Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

**CCC ADJUSTED PURCHASES FOR THE PERIOD OF DECEMBER 20 - 22, 2004 (POUNDS)**

REGION	BUTTER			CHEESE			NONFAT DRY MILK	
	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
CENTRAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
WEST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

**CCC ADJUSTED PURCHASES SINCE 10/1/04 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL**

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
CENTRAL	-0-	-0-	-0-	-0-	1,331,567	849,976	4.2	0.9
WEST	-0-	-0-	-0-	-0-	29,415,099	96,831,350	92.4	99.1
EAST	-0-	-0-	-0-	-0-	1,070,603	-0-	3.4	0.0
<b>TOTAL</b>	-0-	-0-	-0-	-0-	31,817,269	97,681,326	100.0	100.0

**NDM SELLBACK TO THE TRADE** The cumulative sellback total for 2004 is **67,347,152 pounds**.

**SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002**

**MANUFACTURING MILK** Average Test 3.67% - \$9.90 per cwt.

**BUTTER** Bulk \$1.0500 per pound; 1# Prints \$1.0850

**CHEESE** 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

**NONFAT DRY MILK** Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

**U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 12/04/04 & Comparable Week 2003**

Regions* (000 HEAD)	U.S. TOTAL										% DAIRY OF ALL	
	1	2	3	4	5	6	7	8	9	10	WEEK SINCE JAN 1	WEEK SINCE JAN 1
2004-Dairy	0.0	0.8	6.7	2.7	17.9	3.7	0.9	1.0	15.2	2.5	51.5	48.1
2003-Dairy	0.2	0.8	7.7	5.4	24.1	2.6	0.4	1.2	15.6	3.2	61.1	47.5
2004-All cows	0.0	0.9	8.3	11.7	32.7	14.8	12.7	3.3	16.9	5.8	107.1	47.6
2003-All cows	0.2	1.0	10.1	12.5	35.8	18.5	21.6	4.0	17.4	7.5	128.6	

SOURCE The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, the Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

**CLASS III MILK PRICES, (3.5% BF)**

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2001	9.99	10.27	11.42	12.06	13.83	15.02	15.46	15.55	15.90	14.60	11.31	11.80
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87

**FEDERAL MILK ORDER CLASS PRICES FOR 2004 (3.5% BF)**

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	11.85	11.59	11.94	13.64	19.65	21.13	17.95	14.62	13.94	14.78	14.29	14.43
II	11.67	12.90	14.79	15.21	15.03	14.31	14.00	13.13	13.66	13.57	14.09	
III	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	
IV	10.97	12.21	14.10	14.57	14.50	13.72	13.31	12.46	13.00	12.81	13.34	

1/ Specific order differentials to be added to this base price are located at [www.ams.usda.gov/dyfmom/mib/cls\\_prod\\_cmp\\_pr.htm](http://www.ams.usda.gov/dyfmom/mib/cls_prod_cmp_pr.htm)